

**MICHIGAN JOBS COMMISSION**

201 N. WASHINGTON SQUARE, 4TH FLOOR
LANSING, MICHIGAN 48913
PHONE: 517.335.2877
FAX: 517.335.0198
CUSTOMER ASSISTANCE: 517.373.9808
HTTP://WWW.MJC.STATE.MI.US

MEMORANDUM

DATE: April 6, 1999 .
TO: Michigan Economic Growth Authority
FROM: Kathleen Blake, Acting Senior Vice President *Kb*
Business Development
SUBJECT: Briefing Memo - Steelcase

COMPANY NAME AND ADDRESS:

Steelcase, Inc.
901 44th Street, SE
Grand Rapids, Michigan 49508

HISTORY OF COMPANY:

Steelcase is the largest office furniture manufacturer in Michigan with its headquarters in Grand Rapids. It was established in 1880 and has grown to have sales of nearly \$2 billion annually. Steelcase produces modular office furniture, file systems, and free-standing metal and wood furniture. The company employs over 8,000 people in Michigan.

PROJECT DESCRIPTION:

Steelcase wood furniture operations are located Indiana, North Carolina, and Kentwood, Michigan. This sector of the office furniture market is expanding rapidly and the company needs to add up to 290 new employees with an average weekly wage of \$444 and a full benefit package. In addition to the expansion needs, the company must vacate their current leased facility in Kentwood within 30 months. This means that they must purchase or build a facility to house not only 290 new employees, but they must also have sufficient production space to house existing operations and over 700 staff if it decides to continue making wood furniture in Michigan. The company expects to invest \$6 million in building costs and \$7.8 million in new equipment. The company estimates it will have an additional \$7.7 million in relocation costs.

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Because Steelcase will have to relocate all equipment, it has hired a consultant to do a multi-state search for an appropriate location. The initial evaluation included locations in Alabama, North Carolina, and Indiana. North Carolina, Michigan, and Indiana currently have Steelcase facilities which produce compatible products. The list was reduced to two final possibilities in Michigan and North Carolina.

As part of the decision making process, Steelcase is considering relocating the existing 700 wood products jobs from Michigan to North Carolina. This decision gives North Carolina an advantage because it can offer an incentive package that takes into account nearly 1000 jobs rather than the 290 that could be incented by the MEGA credit and other Michigan incentive programs.

BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 892 jobs in the state by the year 2021. Total state government revenues through the year 2021, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$52,749,000 (1998 dollars) due to the presence of the Steelcase facility.

COST ANALYSIS:

As part of the company's decision making process, it has undertaken a comprehensive cost analysis between Alabama, North Carolina and Grand Rapids. Based on figures obtained from the company, the annual cost disadvantage for Steelcase to establish its new manufacturing facility in the Grand Rapids area rather than North Carolina is approximately \$1.2 million. The cost differential is primarily attributable to labor costs, corporate taxes, and property taxes. In addition, capital costs are lower in North Carolina by approximately \$6.5 million. There is an advantage for Michigan in the cost of transportation.

OTHER STATE AND LOCAL ASSISTANCE:

The state of Michigan will provide Steelcase with a 100 percent abatement of the six-mill State Education Tax for a period of time to match the local property tax abatement. In addition, the state will offer job training assistance of \$1,000 per job for up to 290 net new jobs, or a total of up to \$290,000. Gaines Township will provide a 50 percent property tax abatement for a period to match the community policy for machinery and equipment and real property.

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BUT FOR:

With an annual operating cost differential of over \$1 million and a management staff in place in North Carolina, Steelcase has to base its decision on incentive packages offered by each community. Without the MEGA credit, Steelcase will not choose Michigan for the relocation of the Indiana facility and expansion of its existing operations.

RECOMMENDATION:

The Michigan Jobs Commission recommends a MEGA employment credit of 90 percent for a period of 20 years for up to 290 net new jobs.